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¶E. O. 12958: N/A
TAGS: ECON EPET EFIN ETRD ZI
SUBJECT: Zimbabwe May Scrap Fuel Support

Sensitive but unclassified. Protect accordingly.

¶1. (U) Summary: Reportedly smarting from a first-hand encounter with dry fuel pumps, President Mugabe has suggested parastatal NOCZIM may relinquish the job of importing fuel to the private sector, bringing an end to a costly and self-defeating fuel subsidy. This would require huge price increases at the pump, and let the GoZ scapegoat foreign multinationals since it is inconceivable that anyone would import anything at the current GoZ-imposed price. End Summary.

A failed model

¶2. (U) Through NOCZIM, the GoZ has for years bought and bartered for fuel abroad, then sold it to downstream operators for a fraction of its value. Foreign and national oil firms are allowed a modest profit to distribute the fuel. In effect, the GoZ has been underwriting NOCZIM's operating loss to keep fuel artificially cheap (less than US$ .20/gallon at present). With an accelerating Zimdollar devaluation and rampant fuel smuggling to neighboring markets, the GoZ has run out of foreign exchange to import fresh supplies. So desperate is the GoZ has kept the country running of late by cutting off commercial over retail customers, illegally pilfering Independent Petroleum Group (IPG) fuel stored in Zimbabwe and pondering the sale of Air Zimbabwe's fleet to raise hard currency.

¶3. (U) Mugabe has now hinted at scrapping this unsustainable model. Reportedly, he was enraged because he was unable to find fuel for his own armored Mercedes limousine while on a recent trip to Gweru. He announced last Thursday:

"The fuel comes in the name of the government . . . We call on multinational companies. They sell and make profits. Government does not make any profit . . . [The companies] don't suffer from the headaches and stomach aches I suffer from . . . [Now] they must import and not wait for the government to do it for them. They have the foreign exchange."

Anti-profit and self-pity hyperbole aside, Mugabe is admitting the GoZ can no longer cover NOCZIM's losses. Although he does not address pricing, we assume - or at least hope - the President appreciates that private companies will not import fuel at a loss.

Comment

¶4. (U) If Mugabe is serious, the GoZ is taking a significant step forward by tacitly conceding that market forces rather than price controls better serve the country's future fuel needs (not to mention food and exchange requirements). But there's a problem: The GoZ is hard-pressed to justify steep hikes in fuel and transport costs to an already pauperized population.

¶5. (SBU) A solution? Mugabe could scapegoat foreign firms - including Mobil and Caltex. Word in the sector is that new national companies close to the government are anxious to gain market-share from better-established multinationals. (With many new indigenous operators entering the sector, the number of downstream firms has grown from 5 to 22 since 1999.) In this worst-case scenario, Mugabe would castigate multinationals for higher fuel prices, just as he has blamed them for shortages, then expropriate or force sale of their assets. He may have been laying this groundwork when he bemoaned in the same remarks that "government cracks to make [foreign oil companies] rich." Mugabe has similarly vilified and threatened to nationalize National Foods over food shortages. (The CEO of parent Anglo American told us last week he is looking for an indigenous partner

to insulate National Foods from expropriation.) In any event, Mugabe may be coming to the view that expensive fue